

## Evaluation of Village Fund Allocation Contribution on Village Economic Development and Rural Business Growth in Indragiri Hilir Regency

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### Abstract

This study aims to analyze the role of Village Fund Allocation or *Alokasi Dana Desa* (ADD) as a budget stimulant to encourage the growth of the real sector business in the village and to investigate the role of ADD on the development of village potential. The analytical instrument applied was Structural Equation Modeling (SEM) or also known as Linear Structural Equation (LISREL). The results of this study are the variable of village potential/featured development following ADD program is the condition of infrastructure (X4) with a correlation value of 0.81 and the variable of rural enterprises growth financed (impact) by ADD is the infrastructure condition (X4) with a correlation value of 0.33.

### Abstrak

Penelitian ini bertujuan untuk menganalisis peran Alokasi Dana Desa (ADD) sebagai stimulan anggaran untuk mendorong pertumbuhan usaha sektor riil di desa dan menganalisis peran ADD terhadap pengembangan potensi desa. Alat analisis yang digunakan adalah Structural Equation Modelling (SEM) atau juga disebut Linier Structural Equation (LISREL). Hasil penelitian ini antara lain: variabel Perkembangan potensi/unggulan desa setelah adanya ADD adalah kondisi sarana fisik (X4) dengan nilai korelasi sebesar 0,81 dan variabel Tumbuhnya usaha desa yang dibiayai (dampak) oleh ADD adalah kondisi sarana fisik (X4) dengan nilai korelasi sebesar 0,33.

## 1. INTRODUCTION

The Republic of Indonesia consists of 77,126 villages which spread from Sabang to Merauke (BPS, 2010). This goes along with the composition of Indonesia's population obtained from the last census in 2000 that about 60% or the majority of the Indonesian population is living in a rural residential area. Consequently, it becomes very logical that rural development is a top priority for the success of national development. In order to carry out its role in organizing and taking care of the community, village, based on Government Regulation No. 72 of 2005, given the authority that includes: (a) the existing government affairs based on the right of the origin of the village; (b) government affairs under the authority of regencies/cities where the regulations handed to the village; (c) co-administration of the Government, the Provincial Government, and Regency/City Government; and (d) other government affairs by legislation submitted to the village.

It is ironic that rural areas still identical with marginal, poor, and underdeveloped characteristics. A village which fulfill these characteristics can be concluded that the residents still have not felt the impact of development. Hence, the paradigm of the successful development of a country is not only seen from its urban areas, but also have to be seen on the progress of its rural areas, because villages are the source of wealth of a country. Because the village is considered as the spearhead of development success while the conditions are not met these criteria, it is necessary effort from various parties to optimize the function of the village by giving the control to empower its functions. Then came a few ideas to make villages become autonomous regions by giving them full authority to grow and develop.

Some programs that aims to empower rural communities have been formulated. One of the programs is Village Fund Allocation or *Alokasi Dana Desa* (ADD) where such funds are specifically allocated to villages under the provisions of 10% of the funds taken from General Allocation Fund or *Dana Alokasi Umum* (DAU) (PP Nomor 72 Tahun 2005). Some of the benefits of ADD are: (a) rural communities have more freedom to express their improvement. More community aspirations are accommodated as policy makers are in the midst of the people, and they become part of the decision maker; (b) the accomplishment of rural development can be maximized, done by themselves and supported by community self-help; (c) intensive direct control done by the community minimize or even eliminate irregularities (Malik, 2008).

However, the existing constraints in the village that make ADD implementation becomes less optimal should be noted. It may in the form of inability of villagers to understand the existing rules, regulations that are less aligned with the actual situation of society, the inability of communities to manage ADD due to the lack of public innovation, the distortions due to the behavior of society, and some other concerns (Malik, 2008). These are the reasons that encourage researcher to conduct a study to see the effectiveness of the ADD program which is essential so that programs designed to promote rural communities development, which subsequently capable to advance Indonesian development, can be achieved.

Indragiri Hilir has set the Regional Regulation or *Peraturan Daerah* (Perda) No. 4 Year 2008 on Rural Finance followed by decree (declaring) No. 9 Year 2010 on Implementation Guidelines for Village Empowerment Program in the framework of autonomy to the Independent Village in Indragiri Hilir. This regulation becomes the reference for the implementation of ADD to encourage the development up to the realization of self-sufficient villages in this region. The amount of budget allocation received by the village is around Rp225,000,000, - up to Rp350,000,000, - and under certain conditions can reach Rp500.000.000, - each year. This allocation is intended to improve the acceleration of local economic development in the village including for public services, infrastructure development, community empowerment through Small and Medium-sized Enterprises (SMEs) and employment creation.

The questions when we pay attention to the understanding of the financial decentralization at the village level and the extent to which these funds effectively support the improvement of the rural

economy in Indragiri Hilir, including; 1) whether ADD effectively contribute to the development of the real sector in the village, 2) whether ADD effectively contribute to the improvement of the village potential. Regarding to the problems, this study intended to: (a) analyze the role of ADD as a stimulant budget to encourage the growth of the real sector in the village, and (b) analyze the role of ADD towards the development of village potential.

## 2. REVIEW OF THEORY

### a. Fiscal Transfer Theory (Theory of Grants)

Intergovernmental transfers in various countries have various forms, depending on the objectives to be achieved. Block grant transfer, is fund that is given as a repayment of the actual expenditures of local governments. The other form of funding is matching grant, it is an assistance given with certain proportion of local government spending. Transfer can also in the form of revenue (revenue sharing) where sub-national governments receive a share of certain revenues collected within its territory. Revenue sharing is considered as a form of transfer, because the local government has no control over the taxpayer, tax rate, tax collection, or the level of division (sharing rate) (Boex, 2001).

Further, Rossen (2002) divided grant into two types, namely conditional grant or often referred to as categorical grant and unconditional grant. Conditional grant is the donor specifically granted to sub-national governments for specific purposes. Several types of conditional grant include matching grant which intended to encourage particular activity, such as subsidies for education and health where some of the costs are paid by the higher levels of government to the people at lower levels of government. Unconditional grant given to lower levels of government to develop productive enterprises without any specific requirements, for example: investment in the State Owned-Enterprises or *Badan Usaha Milik Negara/Daerah* (BUMN/D) in order to expand employment opportunities and income distribution. Therefore unconditional grant is often referred to as revenue sharing.

In addition to the specific grant, there is also a general purpose grant, or also known as general fiscal assistance, which is allocated with a specific formula (Khusaini, 2006). In Indonesia, general purpose grant known as DAU that were allocated to areas with a certain formula based on the Law No. 33 of 2004 on Financial Balance between the Central Government and Local Government.

In the United States, there are three types of grant, i.e. block grant, conditional grant, and matching grant. Block grant is a form of subsidies provided by the federal government to state governments (regional) with free use, or no certain directives from the central government. Conditional grants or often referred to as functional grant, is a subsidy utilization by the local government under the direction of the central government, for example, should be used for development of certain projects, because they must provide benefits both for the local region itself (internal benefits) and also outside the region (external benefit), for instance, educational projects, healthcare, and tourism. In Indonesia, subsidies that are included in the conditional grant are Provincial Presidential Instruction (PI), Regency PI, Village PI, health center PI, Elementary School PI. Matching grant is a continuation of a conditional grant to finance projects which are also financed by the central government (joint projects). In this case, the central government gives a subsidy only, while the fund provided by the local government (Khusaini, 2006).

### b. Objectives of Fiscal Transfers (Grants)

The variety of transfer forms, as described above, was due to a variety of purposes. Boex (2001) states that the purpose of financial transfers are used as: (a) guarantees of vertical fiscal balance, which ensures a balance between the fiscal needs with fiscal capacity at different levels of government; (b) guarantee of horizontal fiscal balance, which guarantees fiscal balance over the allocation of resources in the administrative units at the same level; (c) the specific funding in

accordance with national priorities, or as measures to neutralize or negate the effect of spillover or international externalities; and (d) compensate the sub-national government demands on the central government mandates or the implementation of central government programs which are delegated to sub-national governments.

Furthermore, Fisher (1996) mentions that traditionally there are four objectives of financial transfers/grants between governments, namely: (a) fix the negative externalities caused by sub-national government structures, so as to improve the efficiency of fiscal decisions; (b) redistribute resources between regions; (c) substitute tax structure between one and the other to gain advantages in economies scale; and (d) stabilize the macro-economic for sub-national governments sector.

Grants known as subsidies or other forms of fund balance essentially are funds that come from higher levels of government to lower levels of government. Theoretically, this type of grant, might affect the political balance, with consequent in fiscal changing, both in terms of revenue and expenditure which is considered has better accountability for the society. In addition, the grant (which should be) followed by a good understanding of the provider and the receiver, with consequences that can be expected to match the expectations (Maryunani, et al. 2006).

Theoretical arguments explaining that the general-purpose or categorical grants have impact merely on income (income effect). While matching grants have an impact on the income effect and the price of public goods per unit (price of effect). Grant in the form of matching grants would lower the tax rate per unit of local public goods. So, it is in accordance with grants theory that the aid could have an impact on the economy, because the subsidy add disposable income and boost public consumption, where ultimately have a positive impact on economic growth and social welfare (Maryunani, et al. 2006).

The relationship between fiscal decentralization and prosperity can be explained by the traditional perspective (first generation theory) that is by implementing decentralization, there will be an effective use of information, considering that local government is closer and know its people better (Bird & Vaillancourt, 2000). In addition, decentralization will push competition among local governments, so that people have choice on public services that are needed. However, this theory might go into negative implication, when there is imbalance (inequity) among local governments, given that the government has better performance in providing services will be more advanced, while poorly performing local governments will be left behind. Thus, fiscal decentralization in the end is not always head for prosperity, but it brings inequality both vertically and horizontally.

Meanwhile, the new perspective or known as the second generation theory, specifically asserted that decentralization was finally able to bridge the local community towards prosperity if government authority higher delegated to lower levels or restricted through decentralization, it will affect the behavior of lower government to encourage the prosperity of the region. The principal difference of the two theories lies in the perspective of revenue transfers between levels of government (Bird & Vaillancourt, 2000).

### **3. METHODS**

In order to explore the topic of research, Indragiri Hilir has been chosen as the setting of the study area since the Government of Indragiri Hilir has implemented the ADD program. This is in line with the legal basis of ADD implementation that is the Legislation No. 32 Year 2004 on Regional Government juncto Regulation No. 72 Year 2005 on the village in article 68 paragraph 1 (c) which describes part of central and regional financial balancing funds received by the Kabupaten / Kota for the Village at least 10%, of which the allocation for each village is proportionally allocated village funds..

Villages selected as research areas are three villages. First, a village with the typology close to the urban center (sub-urban) that is Tanjung Pinang Urban Village which located near Indragiri Hilir Town and includes a fairly fast development area. Second, a village far from the city center (rural),

Bela River Village, this village also represents coastal villages. The third village is Sungai Rawa, which represents the peat area.. Location selection of this study as a means to compare (comparison), in accordance with research objectives. It is hoped that the existence of three separate village locations will show the ADD function in supporting the village economic development. The selection is also built on the corridor of the ADD formulation that takes into account the affordability of the city center, the availability of basic infrastructure, the potential of the village. The village close to the city center (sub-urban) level of economic is chosen based on assumption that activity of the community is relatively more developed and has the availability of infrastructure and superstructure more adequate than rural-class villages. Thus, all the villagers of these three villages are the population of this study while the sample taken is 135 respondents that representing the three villages.

The analysis of the role of ADD to the development of businesses in the village is done by using Confirmatory Factor Analysis (CFA) instrument. This analysis is used to examine how the measured variables (indicators) that either depict or represent a number of constructs. CFA is applied to test the assertion of the theory of measurement that determines how the measured variables logically and systematically describe the role of several aspects, i.e.: planning, implementation, monitoring participation, and influence of infrastructures to the development of rural enterprises.

This study aims to determine the indicators of ADD implementation effectiveness that affects the development of the local economy. This study includes four exogenous latent variables, namely: the physical facilities funded by ADD, superior commodity, ADD governance, financial institution with ADD capital, as well as one endogenous latent variable that is local economic development.

Researchers used two variables, namely: (a) independent variable, consisting of: (1) Physical facilities funded by ADD; (2) Economic Potential of the village; (3) Governance; (4) Microfinance Institutions; (b) two dependent variables, namely local (village) economic development, where the indicators are: (1) the number of local commodity-based SMEs; (2) local employment.

The conversions of path diagram into mathematical models are as follows:

$$\begin{array}{ll}
 X_1 = \lambda_1 \xi_1 + \delta_1 & X_8 = \lambda_8 \xi_2 + \delta_8 \\
 X_2 = \lambda_2 \xi_1 + \delta_2 & X_9 = \lambda_9 \xi_3 + \delta_9 \\
 X_3 = \lambda_3 \xi_1 + \delta_3 & X_{10} = \lambda_{10} \xi_3 + \delta_{10} \\
 X_4 = \lambda_4 \xi_2 + \delta_4 & X_{11} = \lambda_{11} \xi_3 + \delta_{11} \\
 X_5 = \lambda_5 \xi_2 + \delta_5 & \\
 X_6 = \lambda_6 \xi_2 + \delta_6 & Y_1 = \lambda_{12} \eta_1 + \varepsilon_1 \\
 X_7 = \lambda_7 \xi_2 + \delta_7 & Y_2 = \lambda_{13} \eta_2 + \varepsilon_2
 \end{array}$$

Information:

$\lambda$  = Factor Load

$\xi$  = Latent variable

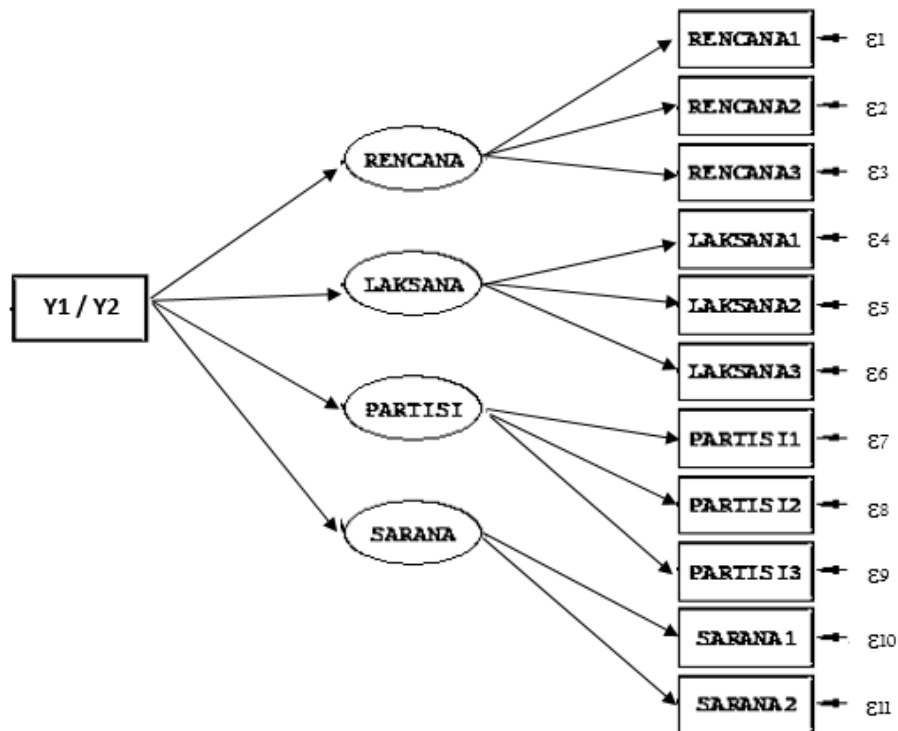
$\delta$  = Variance and covariance error

$\eta$  = name of endogenous variable

$\varepsilon$  = Variance and covariance error

The model of this study can be seen in the picture as follows:

PICTURE 1: The Role of ADD Models on Village Enterprises Growth and Rural Potential Development



**Information:**

Y1 = Village Enterprises Growth

Y2 = Rural Potential Development

Rencana1 = BPD plays a role in the planning of programs funded by ADD

Rencana2 = LPM plays a role in the process of program planning funded by ADD

Rencana3 = The village apparatus plays a role in the program planning process financed by ADD

Laksana1 = Society Involved actively in the implementation of ADD

Laksana2 = The implementation of ADD program in accordance with the needs of the community

Laksana3 = The community benefited from the implementation of ADD

Partisi1 = Communities participate in activities funded by ADD

Partisi2 = The community is active in giving suggestions to the ADD activity plan

Partisi3 = Communities monitor ADD activities

Sarana1 = Condition of village facilities and infrastructure

Sarana2 = The condition of the village office

#### 4. RESULT AND DISCUSSION

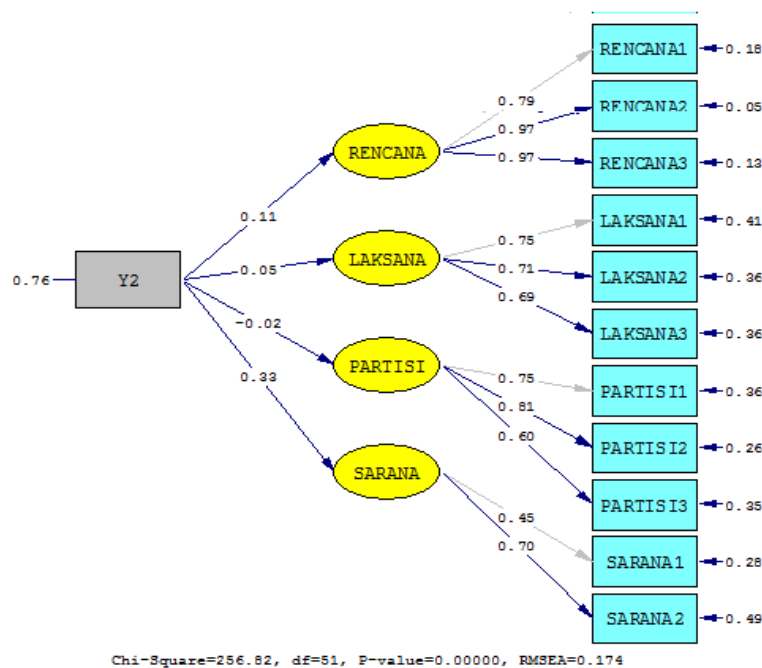
##### a. Role Analysis of ADD to Village Enterprises Growth

The analytical tool used to determine the role of ADD on the growth of village businesses is to use CFA with the help of Lisrel software. The steps taken are 1) Development of model and making flowchart; 2) Select input data and model estimation; 3) Evaluation of the criteria of Goodness Of the Fit; and 4) significance test.

Based on analyze, it can be seen that the most important indicators that contribute to the formation of planning variables ADD (X1) is the role of village officials (Rencana3) and the role of LPM (Rencana2) with a correlation value of 0.97. Another indicator is the Role BPD (Plan) 1 with correlation value respectively of 0.97 and 0.79 (Picture 2).

Indicators which are crucial to the formation of implementation of ADD variable (X2) is the community involvement in the implementation of ADD (Laksana1) with a correlation value of 0.75. The next indicator is Conformity of ADD program implementation with community needs (Laksana2) and the benefits received from implementation of ADD (Laksana3) with a correlation value respectively by 0.71 and 0.69.

PICTURE 2. Relationship of Each Variable



Indicators which are essential to the formation of community participation variable (X3) is community activity in proposing the action plans to ADD (partisi2) with a correlation value of 0.81. Another indicator is community participation in activities funded by the ADD (Partisi1) and Society monitoring on the ADD activities (Partisi3) with a correlation value respectively of 0.75 and 0.60.

Indicators which are important to the conditions formation of physical facilities (X4) is the village office Condition (Sarana2) with a correlation value of 0.70, followed by the indicator of village infrastructure Condition (roads, bridges, markets, etc.) (Sarana1) with the correlation value of 0.45.

Furthermore, the variables that hold most important role on the formation of variable growth of rural enterprises financed (impact) by ADD (Y2) are the condition of the infrastructure (X4) with a correlation value of 0.33. The next variable in sequence, namely ADD planning (X1), the

implementation of ADD (X2), and community participation (X3) with a correlation value of 0.11; 0.05 and 0.33.

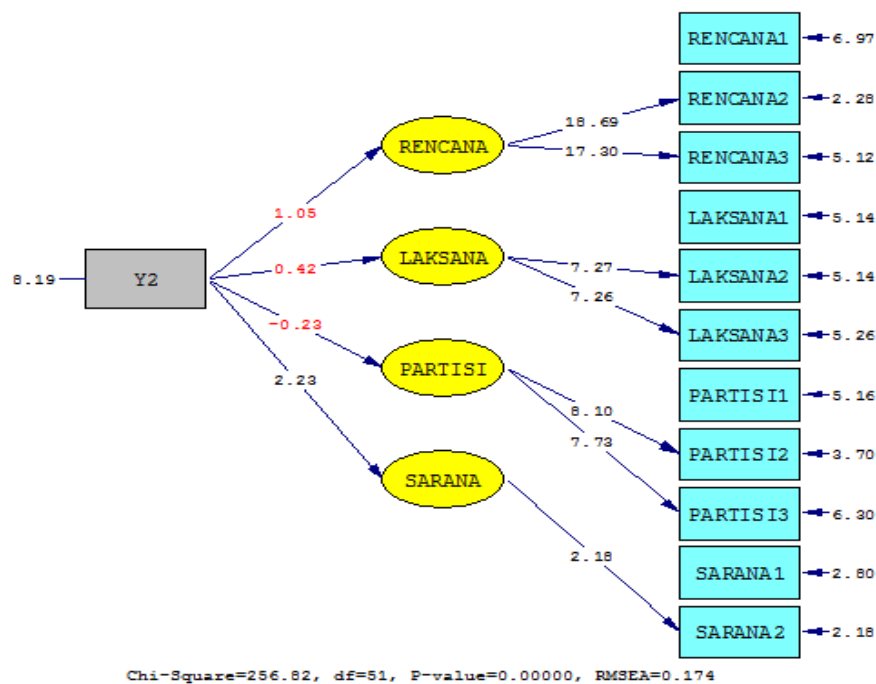
### 1. Goodness of Fit Evaluation

The results of data processing analysis show that the constructs which were used to form a research model, during the process of confirmatory factor analysis has met the goodness of fit criteria that have been set. Probability value of goodness of fit testing shows the value of 0.000 and it indicates that the model is good (Ghozali & Fuad, 2008), and the results of model fit as predicted with other observations values were already qualified as a value Normed Fit Index (NFI) = 0.84; Non-Normed Fit Index (NNFI) = 0.83; Parsimony Normed Fit Index (PNFI) = 0.65; Comparative Fit Index (CFI) = 0.87; Incremental Fit Index (IFI) = 0.87; and Relative Fit Index (RFI) = 0.80.

### 2. Significance Test

Tests of significance in this model can be employed by t-test. T-Test was used to determine whether each independent variable partially has significant influence on the dependent variable (Wijayanto, 2008). It can also be said that if  $t \text{ count} > t \text{ table}$  or  $-t \text{ count} < -t \text{ table}$  then the results are significant and it means that  $H_0$  is rejected and  $H_1$  is accepted. Whereas if  $t \text{ count} < t \text{ table}$  or  $-t \text{ count} > -t \text{ table}$  then the results are not significant and point out that  $H_0$  is accepted and  $H_1$  is rejected. The t test results can be seen in the picture below:

PICTURE 3: Significance test (t test)



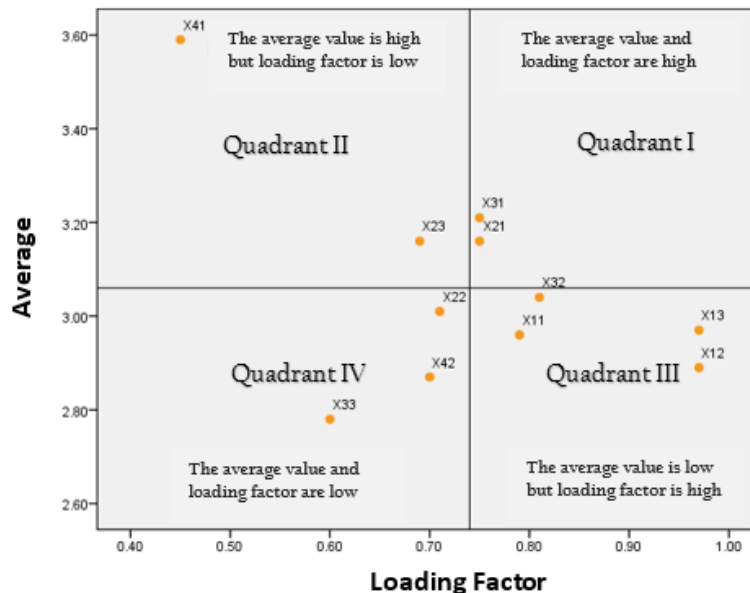
Based on the picture above, it can be seen that the physical facilities condition is the only variable that showed significant numbers,  $t \text{ table}$  ( $\alpha = 0.05$ ;  $df \text{ residual} = 120$ ) is 1,980. Because  $t \text{ count}$  on condition of physical facilities of 2.23 showed  $t \text{ count} > t \text{ table}$ , that is  $2,23 > 1,980$ , it can be concluded that the variable establishment of rural enterprises growth financed (impact) by ADD (Y2) can only be influenced by the condition of the infrastructure. At the same time, variable of ADD Planning, ADD Activities Implementation, and Public Participation are still not able to significantly affect the variable establishment of rural enterprises growth financed (impact) by ADD.



### 3. Typology of ADD Role on the Growing of Rural Enterprises Development

In order to obtain more detailed information related to what variables that will be the priority, the researchers made the average value quadrant and loading factor as seen in the following picture:

PICTURE 4: Average Quadrant and Loading Factor Value



**Quadrant I:** In this position, the indicator has a higher loading factor and high average value as well. Indicators in this position ought to be maintained. Lying on this indicator, it is more appropriate to explain about what things that has been made, so that the indicators in this position can serve as an example for other variables. Indicators that occupy this position is X31 (Society participated in the activities funded by ADD) and X21 (community involvement in the implementation of ADD).

**Quadrant II:** In this position, the indicator has a low loading factor and high average value. Indicators that present in this position have "weaker" contribution (not the main indicator). Indicators that are in this position is X41 (Condition of village infrastructure) and X23 (benefits received from ADD implementation).

**Quadrant III:** In this position, the indicator has higher loading factor and low average value. Indicators in this quadrant ought to be a "major priority" due to have higher loading factor but the average value is still low. On this indicator, it is more proper to explain about what things that will be done, so that these indicators can be applied well or in other words, what are the "new attempts" that should be implemented so that the average value of those indicators could be better. Indicators located in this quadrant are X32 (Society activity in providing proposals on the ADD action plan), X11 (BPD Role in ADD program planning), X12 (LPM Role in ADD planning) and X13 (Apparatus village Role in the planning process of ADD).

**Quadrant IV:** In this position, the indicator has low loading factor and low average value. Indicators in this quadrant are the weakest so it is important to know why this happened. Indicators that are in this position are X22 (Compliance of ADD program implementation with the needs of society), X33 (Society activity in monitoring the activities of ADD) and X42 (Condition of village office).

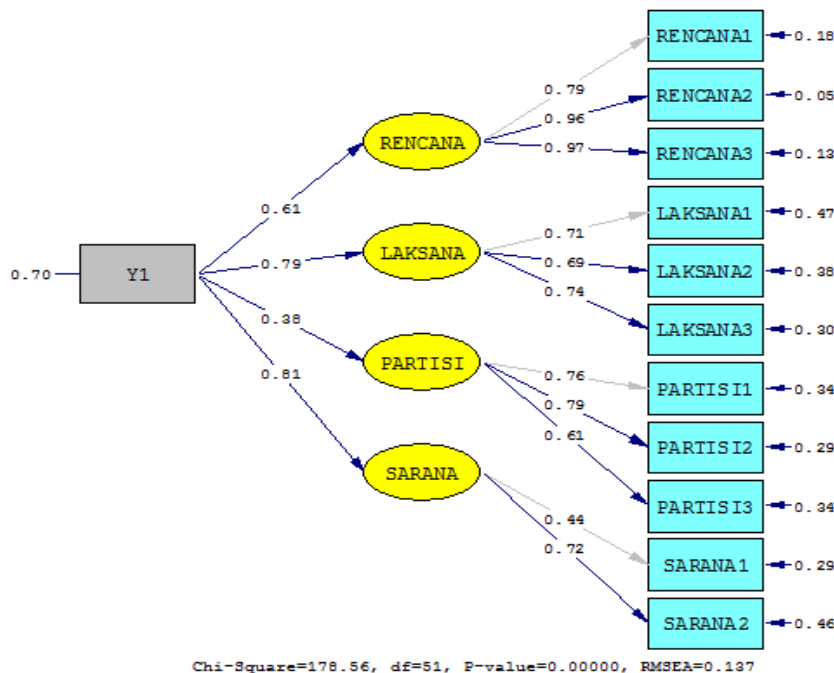
#### b. Analysis of ADD Role on Rural Potential Development

Based on CFA, it can be seen that the most important indicators that contribute to the formation of planning variables ADD (X1) is the role of village officials (Rencana3) with a correlation value of

0.97. Another indicator is the role of LPM (Rencana2) and the role of BPD (Plan) 1 with a correlation value of 0.96 and 0.79 (Picture 5).

Indicators which are crucial to the formation of ADD implementation variable (X2) is the benefits received from implementation of ADD (Laksana3) with a correlation value of 0.74. The next indicator is public involvement in the implementation of ADD (Laksana1) and Compliance of ADD program implementation with the needs of society (Laksana2) with a correlation value respectively by 0.71 and 0.69.

PICTURE 5. Relationship of Each Variable



Indicators which are crucial to the formation of community participation variable (X3) is the community that actively providing suggestions to ADD action plans (Partisi2) with a correlation value of 0.79. Another indicator is the community participation in activities funded by the ADD (Partisi1) and Society monitoring on the activities of ADD (Partisi3) with a correlation value respectively of 0.76 and 0.61.

Indicators which are essential to the formation of physical facilities conditions (X4) is the village office Condition (Sarana2) with a correlation value of 0.72. Another supporting indicator is the condition of village infrastructure (roads, bridges, markets, etc) (Sarana1) with correlation value of 0.44.

In addition, variables that have most important role on the formation of village potential developments variable after the presence of ADD (Y1) is the condition of the infrastructure (X4) with a correlation value of 0.81. The next variable, in sequence, namely: the implementation of ADD (X2), planning of ADD (X1), and community participation (X3) with a correlation value respectively by 0.79; 0.61 and 0.38.

#### 1. Evaluation of Goodness of Fit

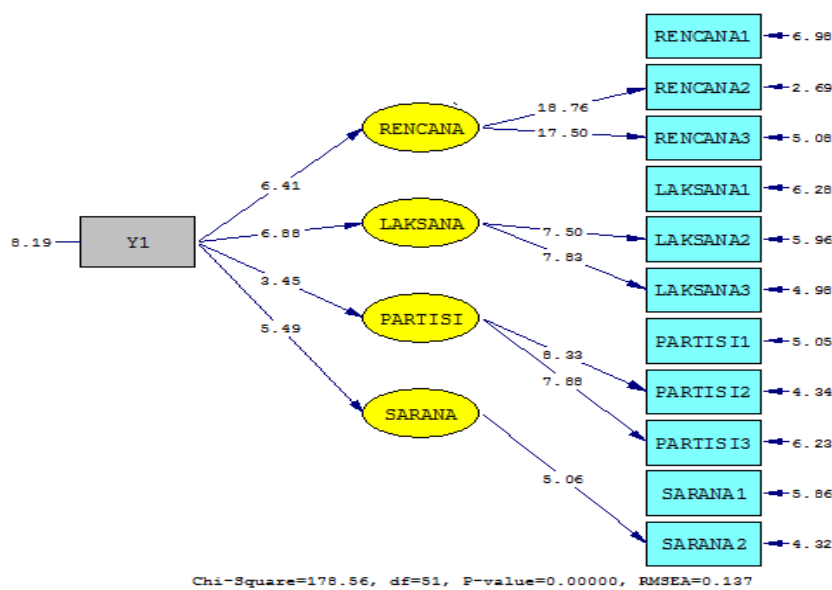
The results of data processing analysis show that the constructs which were used to form a research model, during the process of confirmatory factor analysis has met the goodness of fit criteria that have been set. Probability value of goodness of fit testing shows the value of 0.000 and indicates

that the model is good (Ghozali & Fuad, 2008), and the results of model fit as predicted with values of other observations already qualifies as a value Normed Fit Index (NFI) = 0.90; Non-Normed Fit Index (NNFI) = 0.91; Parsimony Normed Fit Index (PNFI) = 0.70; Comparative Fit Index (CFI) = 0.93; Incremental Fit Index (IFI) = 0.93; and Relative Fit Index (RFI) = 0.88.

## 2. Test of Significance

Tests of significance in this model can be employed with t-test. T-test was used to determine whether each independent variable partially have a significant influence on the dependent variable. It can also be said that if  $t \text{ count} > t \text{ table}$  or  $-t \text{ count} < -t \text{ table}$  then the results are significant and it means that  $H_0$  is rejected and  $H_1$  is accepted. Whereas if  $t \text{ count} < t \text{ table}$  or  $-t \text{ count} > -t \text{ table}$  then the results are not significant and means that  $H_0$  is accepted and  $H_1$  is rejected. The t test results can be seen in the picture below:

PICTURE 5: Test of Significance (t test)

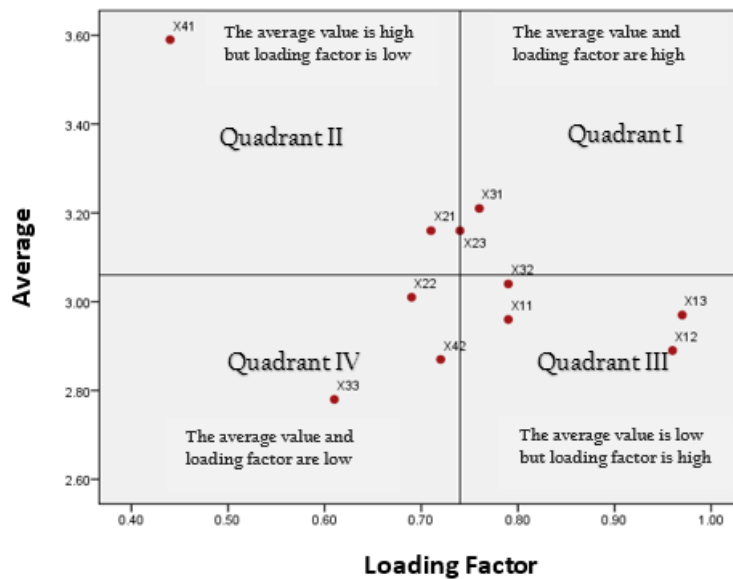


Based on the above picture can be seen that all variables showed significant numbers, t table ( $\alpha = 0.05$ ; db residual = 120) is 1,980. Since all variables showed  $t \text{ count} > t \text{ table}$ , it can be concluded that the Formation of Village Potential Developments variable after the existence of ADD program can be affected by ADD Planning, Activities Implementation of ADD, Public Participation, and Physical Infrastructure Conditions.

## 3. Typology of ADD Role on the Progress of Village Potential

In order to obtain more detailed information related to what variables that will be the priority, this study made the average value quadrant and loading factor as seen in the picture below:

PICTURE 5: Average Quadrant and Loading Factor



**Quadrant I:** In this position, the indicator has higher loading factor and high average value. Indicators in this position ought to be maintained. In this position, it is more appropriate to explain about what things that have been made, so that the indicators in this position can serve as an example for other variables. Indicators that are in this position is X31 (the society participated in the activities funded by ADD) and X23 (the benefits received from implementation of ADD).

**Quadrant II:** In this position, the indicator has low loading factor and high average value. Indicators in this position have "weaker" contribution (not the main indicator). Indicators that occupy this position is X41 (Condition of village infrastructure) and X21 (community involvement in the implementation of ADD).

**Quadrant III:** In this position, the indicator has high loading factor and low average value. Indicators in this quadrant ought to be a "major priority" due to have higher loading factor although the average value is still low. On this indicator, it is more appropriate to explain about what things will be done, so that these indicators can be applied well or in other words, what are the "new attempt" that should be implemented so that the average indicator could be better. Indicators that present in this quadrant are X32 (Society provide proposals actively on the action plan of ADD), X11 (Role of BPD in ADD program planning), X12 (Role of LPM in ADD planning) and X13 (Role of village Apparatus in the planning process of ADD).

**Quadrant IV:** In this position, the indicator has low loading factor and the low average value. Indicators that exist in this quadrant are the weakest ones so it is important to know why this happened. Indicators that present in this position is X22 (Compliance of ADD program implementation with the needs of society), X33 (Society monitoring on the activities of ADD) and X42 (village office condition).

## 5. CONCLUSION

The results of this study indicate that the most important variable to the growth of village businesses financed by ADD is the condition of physical facilities. Subsequent variables are sequential ADD planning, implementation of ADD activities, and community participation. While the most important variables plays an important role in the development of potential / seeded villages after

ADD is the condition of physical facilities. The subsequent variables in sequence are the implementation of ADD activities, ADD planning, and community participation.

Based on the results of these studies, there are some suggestions as an attempt to strengthen the implementation process of ADD in Indragiri Hilir, namely: (a) give more attention on the formulation of policies and the concept of development which is comprehensive, integrated, and linkage in order to achieve even distribution in all regions. Development strategies implemented so far despite being shifted to rural areas, still struggling on the an-sich physical development. Humanitarian and social developments are less likely to have balanced portion. The increasing of community involvement and participation need to be managed with a bottom-up management patterns so that there will be more extensive range of networks and public participation. (b) Upgrade the economic development by optimizing on economic potential and the economic infrastructures that present in each village, which has been enshrined in government regulations as much as 17 village authority needs to be encouraged and institutionalized through the rule or Perda. It is also necessary to conduct identification and mapping of potential opportunities and economics facilities owned by the villages and the ability of public economic enterprises. There should be a synergy between economic activities performed by the society and the supplying of facilities and infrastructures provided by local governments. (c) Empower the potential and economic facilities more by involving citizens in its management. Meanwhile economic development programs in the villages should be directed better by forming a village level economic institutions such as *Badan Usaha Milik Desa* (BUMDes), which comprise both real business institutions and microfinance institutions.

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